

# Investment in Macedonia

An opportunity to invest in the bus manufacturing industry in Macedonia

## **FAS “11 Oktomvri” Skopje, in liquidation**



**April 2003**

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## FAS

FAS's core business is the manufacturing and remount-production of buses and bus parts. The Company is based in the city of Skopje, the capital of Macedonia. The city is well serviced by national and international road and rail transport.

The business was founded in 1930 as a small remount-production workshop with 30 employees. Over the years the business has grown to employ over 1,100 staff, with an annual installed production capacity of 1,500 buses per annum (or 6 buses per day).

The majority of the Company's production is destined for export markets, including: Poland; Saudi Arabia; China; Syria; Russia; Egypt; Turkey; and Libya.

The Company's manufacturing facilities are focussed around the following areas:

- ?? Buses and trolleybuses;
- ?? Special purpose superstructures;
- ?? Bus body parts;
- ?? Servicing and remounting of buses;
- ?? Welding and hot and cold formation of sheet metal; and
- ?? Corrosive and surface protection and lacquer coating.

In addition, FAS has the facilities to produce a range of custom-made vehicles and a variety of custom-made parts.

Until the early 1990's, which saw the start of the crisis in the Former Yugoslavia, the Company had licence agreements to supply parts and buses to Mercedes Benz. The close relationship with Mercedes Benz dates back to 1965. Furthermore, FAS has also worked in partnership with Skoda Buses for the production of buses and trolleybuses in various forms and other special purpose vehicles, such as mobile ambulances.

The key advantage of FAS, is its ability to produce vehicles and parts at a significantly lower cost than its competitors in the region, whilst maintaining high levels of quality, as illustrated in the table 1 below.

**Table 1: Estimated cost of various bus types**

	Buses manufactured in EU (EUR'000)	Buses manufactured in Turkey (EUR'000)	Buses manufactured by FAS (EUR'000)
<b>City buses</b>			
<i>Up to 100 seats</i>	170 - 273	131	100
<i>More than 100 seats</i>	199 - 293	-	149
<b>Town Buses</b>	73 – 223	-	68 – 96
<b>Coach buses</b>	173 – 328	-	73 – 103
<b>Tourist buses</b>	125 - 170	-	114 – 123

Bad management policy of the ex management led to the company's insolvency. On 30.01.2002, the Company was put into liquidation. This action was taken to help clear the way for new investors to acquire the assets and resume operations quickly and easily. The production lines remain economically viable, making this an excellent investment opportunity.

The factory complex, which is situated in the central part of Skopje, covers approximately 142,711 m<sup>2</sup> and encompasses production lines, warehouses, administration and general service buildings with a

total covered floor area of approximately 41,097 m<sup>2</sup>. The factory's real estate and machinery are in good condition, with no immediate need for major repair work.

In the time prior to the company's insolvency, FAS employed approximately 1,100 personnel as of April 2002. There is sufficiently skilled labour available locally to meet the needs of potential investors. In fact the factory is currently operational, at a reduced level, fulfilling obligations under existing contractual agreements in an effort to maintain good relationships with its customers during this phase of transition .

Potential investors should be aware that there is no minimum bid for FAS within the auction process. Additionally, there are no future obligations for the investor regarding investment or the employees of FAS. For full details bidders should read the Tender Rules available through registration with the FAS Bankruptcy Trustee.

Some of the main benefits of manufacturing businesses in Macedonia include:

- ?? Low labour costs;
- ?? Highly skilled workforce;
- ?? Strong industrial tradition;
- ?? Stable macroeconomic situation;
- ?? Easy access to export markets in both the EU and other Balkan states; and
- ?? Development of Macedonia's relationship with the EU and the WTO.

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## **The Republic of Macedonia ("Macedonia")**

Since gaining independence in 1991, in spite of the difficulties posed by political and social unrest in the region, Macedonia has implemented a reform programme designed to develop a free market economy and achieve closer integration with international trading partners. Priority has been placed on economic reform and, in this, the Government has worked closely with both the World Bank and the IMF. Macedonia has started working towards membership of the EU and has recently been granted full membership to the WTO.

The achievements of the ongoing programme of economic reform include:

- ?? widespread privatisation of state and socially-owned enterprises;
- ?? regional, European and worldwide trade liberalisation; and
- ?? promotion of foreign direct investment (including major foreign capital backing in the banking and insurance industries).

Macedonia took major steps towards integration with the EU with the signing of the Stabilization and Association Agreement in April 2001 and a Free Trade Agreement with the European Free Trade Association (EFTA) whose implementation starts this year. Goods exported from Macedonia to the EU are now free of any customs duties or quantity limitations. Duties on goods imported from the EU into Macedonia will be progressively reduced to zero duty by the end of 2010.

The Country also has some very important trading partners in the Balkan region. Trade with Slovenia, Yugoslavia, Romania, Croatia, Bulgaria, Turkey, Ukraine and Albania accounted for approximately 35% of total imports and exports in 2000. Macedonia has now signed free trade agreements with all of these countries and has begun negotiations with the Russian Federation.

Macedonia's recent entry into the WTO will help the Country's further integration into the world trading system. It will help facilitate foreign trade and investment and expand the market for Macedonian goods and services.

In order to attract foreign direct investment, the Government of Macedonia has implemented various reforms to encourage investment. Incentives for overseas investors include:

- ?? A relatively low rate of corporate income tax (15%);
- ?? Corporate income tax relief investors are allowed a tax break of up to 3 years, after which, if the investor decides to invest profit back into the company then an additional 3 years tax break may be granted;
- ?? Customs duty exemptions on imports of equipment and other capital assets; and
- ?? Creation of Free Economic Zones with offering various exemptions from customs duties and income, sales and property taxes.

Macedonia offers excellent logistical advantages to investors. The country is crossed by two major transport corridors: the E65 which runs east to west from Durres to Varna, and the E75 running north to south from Munich to Thessaloniki.

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## Sale process

FAS will be privatised through the liquidation process. Sealed bids will be invited for the Company's assets.

There will be no contractual conditions of sale concerning re-employment of workers or future investment in the plant.

The only criterion for the selection of a purchaser will be the price offered for the assets. Full details of the sales process, brief information about the Company and lists of the assets included in each asset package will be set out in an Information Document, which will be available to all interested parties on payment of EUR 200 (or Macedonian Denar equivalent). To receive an Information Document and Tender Rules Document, please contact either the Bankruptcy Trustee or the Liquidation Advisor.

In order to participate in the liquidation, bidders will be required to purchase an Information Document and comply with the Tender Rules attached to the Information Document. The deadline for the receipt of bids for the asset packages will be 16.00 on 06.05.03.

Interested parties wishing to receive more detailed information regarding this tender, with a view to making a bid, must pay a non-refundable processing fee of EUR 200 (or the Macedonian equivalent), into one of the following bank accounts:

Domestic amounts in <i>Macedonian Denar</i>	Foreign amounts in <i>Euro</i>
KOMERCIJALNA BANKA AD-SKOPJE Account No. 300000000604346 Tax No. 4030948258049	TUTUNSKA BANKA AD-SKOPJE Account No. 7160-4052609 978 SWIFT CODE: TUTNMK 22

## Contact details

For further information contact:

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## **Purpose and Contents of this Document**

This document (the "Document") contains proprietary and confidential information FAS "11 Oktomvri" Skopje, in liquidation ('FAS' or the 'Company'). It has been prepared from information provided by the Bankruptcy Trustee and the Company, solely to enable those selected persons receiving the Document (Interested Persons') to gain some initial familiarity with the business and the assets of FAS. The information in this Document has not been verified by the Bankruptcy Trustee, the Company or by Lion's Bridge and the Adam Smith International (together, the 'Liquidation Advisor'). Interested Persons must undertake such investigations as they see fit before entering into any contract.

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This Document (and the information contained herein) does not constitute an offer to sell or an invitation to purchase any of the underlying assets of FAS, nor will it form a part of any investment decision or any decision to enter into any contract of sale.

## **Joint Liquidation Advisors**



**ADAM SMITH**  
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